

OLYMPIA, WASHINGTON

January 24, 2006

The State Finance Committee met in a special meeting after notice duly given to the press and radio of Thurston County.

Present: Michael J. Murphy, State Treasurer
Christine O. Gregoire, Governor
Brad Owen, Lieutenant Governor

Also Present: Allan J. Martin, Office of the State Treasurer
Andrew Scott, Office of the Attorney General
Svein Braseth, Office of the State Treasurer
Dean Torkelson, Seattle-Northwest Securities
Shad Pruitt, Office of the State Treasurer
Sue Melvin, Office of the State Treasurer
Bill Tonkin, Foster Pepper LLC
Vicki Cox, Office of the State Treasurer
Rob Shelley, Seattle-Northwest Securities
Rick Singer, Department of Transportation
Amy Arnis, Department of Transportation
Sue Penley, Office of the State Treasurer
Susan Mussleman, Susan D. Musselman, Inc.
Noah Crocker, Office of the State Treasurer
Bonnie Scheel, Department of General Administration
Helen Martz, Department of General Administration
Nancy Notter, Office of the State Treasurer
Alli Davis, Department of Transportation
Jeff Caldwell, Department of Transportation
Mike Roberts, Office of Financial Management
Victor Moore, Office of Financial Management
Tom Saelid, Office of Financial Management
Bill Starkey, Seattle-Northwest Securities

Chairman Murphy called the meeting to order.

Lt. Governor Owen moved the minutes for the December 14, 2005 meeting be approved. Governor Gregoire seconded the motion. The motion passed and the minutes were adopted.

Mr. Martin said proposed Resolution No. 1028 accepts a bid for the purchase of State of Washington Various Purpose General Obligation Bonds, Series 2006D in the aggregate principal amount of \$236,000,000; fixing the interest rates; in accordance with Resolution No. 1026. The Series 2006D Bonds are tax-exempt current interest bonds. The interest will be paid semi-annually on the outstanding principal. The Series 2006D Bonds are structured to produce an

approximate level debt service over the life of the Bonds. The electronic bid provider, i-Deal/Parity, received three bids at 7:30 a.m. Pacific Time. Mr. Martin said Banc of America Securities LLC submitted a true interest cost (TIC) of 4.4312240%; UBS Securities LLC submitted a TIC of 4.4376828%; and Merrill Lynch & Co. submitted a TIC of 4.4382688%, with the apparent low bidder being Banc of America Securities LLC.

Treasurer Murphy noted that Moody's Investors Service had removed the negative outlook from the Moody's rating of 'Aa1'. The state has been given a stable outlook according to Moody's. Each of the rating agencies has its own guidelines for rating general obligation bonds. However, they tend to follow similar criteria. In Standard and Poor's most recent rationale for assigning its 'AA' rating, they wrote that the state is hampered in its ability to accumulate budget reserves because of its very active voter-initiative process that has focused on, and passed, numerous tax rates and spending limitations over the years. Lt. Governor Owen said the Standard & Poor's comment should be shared with the media. Treasurer Murphy said that no action has been taken to respond back to them yet. Governor Gregoire suggested that the response include asking them to clarify what they are saying.

Mr. Martin presented proposed Resolution 1028 to the committee.

Resolution 1028 awards the sale of not to exceed \$236,000,000 State of Washington Various Purpose General Obligation Bonds, Series 2006D, authorized by Chapter 14, Laws of 1989, 1st Ex. Sess.; Chapter 15, Laws of 1990, 1st Ex. Sess.; Chapter 3, Laws of 2003, 1st Sp. Sess.; Chapter 18, Laws of 2003, 1st Sp. Sess.; Ch. 487, Laws of 2005; and Chapter 39.42 RCW.

Governor Gregoire moved to adopt Resolution 1028. Lt. Governor Owen seconded the motion and the resolution was adopted.

Mr. Martin said proposed Resolution No. 1029 accepts a bid for the purchase of State of Washington Motor Vehicle Fuel Tax General Obligation Bonds, Series 2006E in the aggregate principal amount of \$260,000,000; fixing the interest rates; in accordance with Resolution No. 1027. The Series 2006E Bonds are tax-exempt current interest bonds. The interest will be paid semi-annually on the outstanding principal. The Series 2006E Bonds are structured to produce an approximate level debt service over the life of the Bonds. The electronic bid provider, i-Deal/Parity, received six bids at 7:30 a.m. Pacific Time. Mr. Martin said Merrill Lynch & Co. submitted a TIC of 4.4226590%; Lehman Brothers submitted a TIC of 4.4227526%; Morgan Stanley & Co. Inc. submitted a TIC of 4.4247354%; Banc of America Securities LLC submitted a TIC of 4.4258051%; Citigroup Global Markets Inc. submitted a TIC of 4.4279736%; and UBS Securities LLC submitted a TIC of 4.4339628%, with the apparent low bidder being Merrill Lynch & Co.

Treasurer Murphy said the bids were so close that you needed to go four decimal points to determine the lowest bid. That indicates a very stable marketplace. This is helpful in keeping down the debt service for the state.

Mr. Martin presented proposed Resolution 1029 to the committee.

Resolution 1029 awards the sale of not to exceed \$260,000,000 State of Washington Motor Vehicle Fuel Tax General Obligation Bonds, Series 2006E, authorized by Chapter 321, Laws of 1998 (Referendum 49) (RCW 47.10.843); Chapter 147, Laws of 2003 (RCW 47.10.861); Chapter 315, Laws of 2005 (RCW 47.10.873); and Chapter 39.42 RCW.

Governor Gregoire moved to adopt Resolution 1029. Lt. Governor Owen seconded the motion and the resolution was adopted.

Mr. Martin said proposed Resolution No. 1030 accepts a bid for the purchase of State of Washington Motor Vehicle Fuel Tax General Obligation Bonds, Series 2006F in the aggregate principal amount of \$55,000,000, more or less; fixing the interest rates; in accordance with Resolution No. 1027. The Series 2006F Bonds are tax-exempt compound interest bonds. As such, the interest on the Series 2006F Bonds will be paid only at maturity. The electronic bid provider, i-Deal/Parity, received seven bids at 8:00 a.m. Pacific Time. Mr. Martin said Morgan Stanley & Co. Inc. submitted a TIC of 4.3834711%; Merrill Lynch & Co. submitted a TIC of 4.4044258%; UBS Securities LLC submitted of 4.4141367%; Lehman Brothers submitted a TIC of 4.4355223%; Banc of America Securities LLC submitted a TIC of 4.4478369%; LaSalle Financial Services, Inc. submitted a TIC of 4.4529236%; and Citigroup Global Markets Inc. submitted a TIC of 4.4646983%, with the apparent low bidder being Morgan Stanley & Co. Inc.

Treasurer Murphy said this is sale number eight of bonds for the Tacoma Narrows Bridge construction. He is pretty sure there will be a ninth sale. It's possible there will be another sale after that depending on the numbers. The market has improved since the first bond sale and is more comfortable with this kind of debt.

Mr. Martin presented proposed Resolution 1030 to the committee.

Resolution 1030 awards the sale of \$55,000,000, more or less, of State of Washington Motor Vehicle Fuel Tax General Obligation Bonds, Series 2006F, authorized by Chapter 321, Laws of 1998 (Referendum 49) (RCW 47.10.843); and Chapter 39.42 RCW.

Governor Gregoire moved to adopt Resolution 1030. Lt. Governor Owen seconded the motion and the resolution was adopted.

Ms. Melvin said proposed Resolution No. 1031 approves the form of a State Agency Financing Lease and related documents to be entered into by the State Department of General Administration to finance the Cherberg Building rehabilitation and authorizes the issuance and sale of up to \$13,000,000 (plus financing expenses and required reserves) of State of Washington Certificates of Participation authorized by Chapter 488, Laws of 2005, Section 909(1)(c). The Department of General Administration received authorization from the Legislature pursuant to Chapter 488 Laws of 2005, Regular Session, Section 909 paragraph 1 (c), (2005-2007 capital budget) to use certificates of participation for the financing of the rehabilitation of the Cherberg building in the 2005-2007 biennium. Proceeds of the sale will be used to rehabilitate the

Cherberg Building, built in 1936. The project will renew the building's infrastructure, correct code deficiencies, improve space utilization on the upper floors, clean and repair the exterior and adapt the building with today's technology. The rehabilitation of the building is expected to be completed for the 2007 legislative session. The certificates of participation are to be issued pursuant to Chapter 39.94 RCW. Authorization of the certificates of participation relating to the Cherberg rehabilitation by the State Finance Committee is being requested pursuant to an internal policy whereby no projects in the over \$6 million category will be financed without approval of the State Finance Committee by resolution.

Ms. Melvin presented proposed Resolution 1031 to the committee.

Resolution 1031 approves forms of a State Agency Financing Lease and related documents to be entered into by the Department of General Administration to finance the rehabilitation of the Cherberg building and authorizes the issuance and sale of up to \$13,000,000, plus financing expenses and required reserves, of State of Washington Certificates of Participation authorized by Chapter 488, Laws of 2005, Section 909(1)(c) and Chapter 39.94 RCW.

Governor Gregoire moved to adopt Resolution 1031. Lt. Governor Owen seconded the motion and the resolution was adopted.

Treasurer Murphy said the state of Washington does its fiscal agent contract a little differently than other states. We include junior taxing districts as part of our contract. Mr. Pruitt said the state's contract with the Bank of New York to provide Fiscal Agency Services expires January 31, 2007, including the single, one-year extension, approved by State Finance Committee on March 1, 2005. The fiscal agent provides securities processing services for bonds and other obligations, including administering principal and interest payments to bondholders for debt issued by the State, as well as local governments.

Mr. Pruitt said as of the end of 2004, the par value of these obligations totaled nearly \$40 billion statewide, representing over 3,100 debt issues, with approximately 5,200 payments made to bondholders each month. Chapter 43.80 RCW requires the Committee to designate banks or trust companies as fiscal agencies to serve for a period of four years. Treasurer's staff has begun the process of assessing the services currently provided, and preparing a Request for Proposal (RFP). A working group, representing the 397 local governments currently using the services provided by the Bank of New York has been assembled to assist in developing the RFP, and evaluating future responses, including potential site visits to finalists' facilities. The Working Group members are: Judy Morris, Jefferson County Treasurer; Craig Kerr, Treasury Manager, Port of Seattle; Steven Marcotte, Financial Director, City of Tacoma; James Hendrickson, Financial Services Manager, City of Tumwater and Bill James (representing 2001 Working Group), Director of Finance/Administration, Port of Port Angeles. The process will culminate with staff making a recommendation to the Committee regarding the selection of a bank to serve as fiscal agent beginning February 1, 2007. Treasurer Murphy said this is a big contract. The state does around \$40 billion in transactions so the eligible firms are limited in number.

Mr. Martin informed the Committee that Office of Financial Management's Senior Budget Assistant Mike Roberts was retiring January 31, 2006 from state service after 30 years. Treasurer Murphy summarized Mr. Roberts' career and thanked him for his service and a great job. Treasurer Murphy presented Mr. Roberts with a framed Certificate of Appreciation. Mr. Roberts thanked Treasurer Murphy and State Treasurer's staff and acknowledged how they could put aside their differences and do a great job for the state's benefit. Lt. Governor Owen said in jest, the Governor was going to give Mr. Roberts tickets to the Seahawks Superbowl play-off. Governor Gregoire added her thanks for a good job. Regarding the tickets, Mr. Roberts replied that it was the thought that counted.

There being nothing further to come before the committee, the State Finance Committee meeting was adjourned at 10:19 a.m.

STATE FINANCE COMMITTEE
STATE OF WASHINGTON

Michael J. Murphy, State Treasurer & Chairman

Christine O. Gregoire, Governor & Member

Brad Owen, Lieutenant Governor & Member

Allan J. Martin
Deputy State Treasurer & Secretary